

OCD Bonding Requirements and Orphan Wells

NEW MEXICO OIL CONSERVATION DIVISION (OCD) OF THE ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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OCD Statutory Jurisdiction

- The New Mexico Oil and Gas Act gives OCD broad jurisdiction to:
 - Protect correlative rights of O&G mineral rights owners
 - Prevent waste of O&G natural resources
 - Protect fresh water, human health and the environment
- Act requires OCD to mandate financial assurance (FA) for well plugging and restoration/remediation:
- Act creates a “Reclamation Fund” for the OCD to administer for well plugging and abandonment (P/A)
 - Funds come from percentage of Oil and Gas Conservation Tax and forfeited bonds (general fund not used to plug)
 - Requires OCD to P/A wells as funds become available
 - Allows OCD to employ personnel to survey orphan wells/sites/associated facilities; P/A orphan wells and restoration/remediation
 - HB 2 limits Rec. Fund appropriation for OCD full time employee(s) to \$153,000

OCD Bonding Requirements

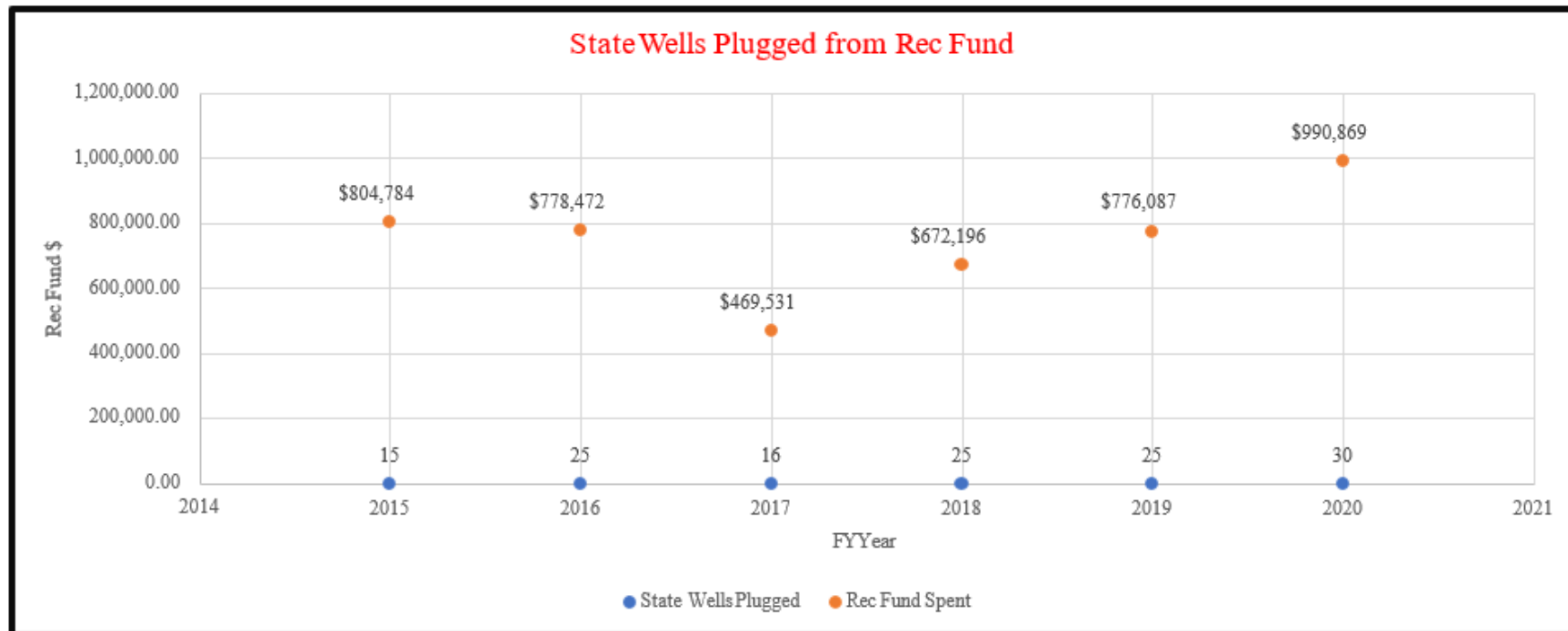
- Production, injection and service wells are required to have FA to plug wells and restore/remediate location
- FA comes in several forms: cash bond, surety, letter of credit, plugging insurance
- Bonding amounts were increased by the legislature in 2018 and OCC enacted a rule to implement the increase in 2019
 - Active well “single”: \$25,000 plus \$2 per foot of the projected depth of a proposed well
 - Active well “blanket” (Note: 70-2-14 set “blanket bond” limit at 250k):
 - \$50,000 for one to 10 wells;
 - \$75,000 for 11 to 50 wells;
 - \$125,000 for 51 to 100 wells; and
 - \$250,000 for more than 100 wells
 - Inactive well “single”: \$25,000 plus \$2 per foot of the depth of an existing well
 - Inactive well “blanket”:
 - \$150,000 for one to five wells;
 - \$300,000 for six to 10 wells;
 - \$500,000 for 11 to 25 wells; and
 - \$1,000,000 for more than 25 wells

Orphan Wells

- What is an orphan well?
 - No current operator of record, usually due to bankruptcy
 - Not properly plugged or restored/remediated
- What happens when an operator orphans their wells?
 - Operator has to forfeit FA if sites not properly P/A'd and restored/remediated
 - OCD must deposit forfeitures/funds into the Reclamation Fund
 - OCD works with plugging contractors to properly P/A the sites
- Approximately 687 orphan wells in NM, each costing on average \$35,000 to plug
 - Total est. liability for P/A is \$24 million
 - Total may greatly increase if cost for reclamation/restoration of the site are included
- Legislature appropriated OCD appx. 5 million from Reclamation Fund for plugging in FY21
- \$2 million from the Reclamation Fund was assigned to pay for the Carlsbad Brine Well project in FY21

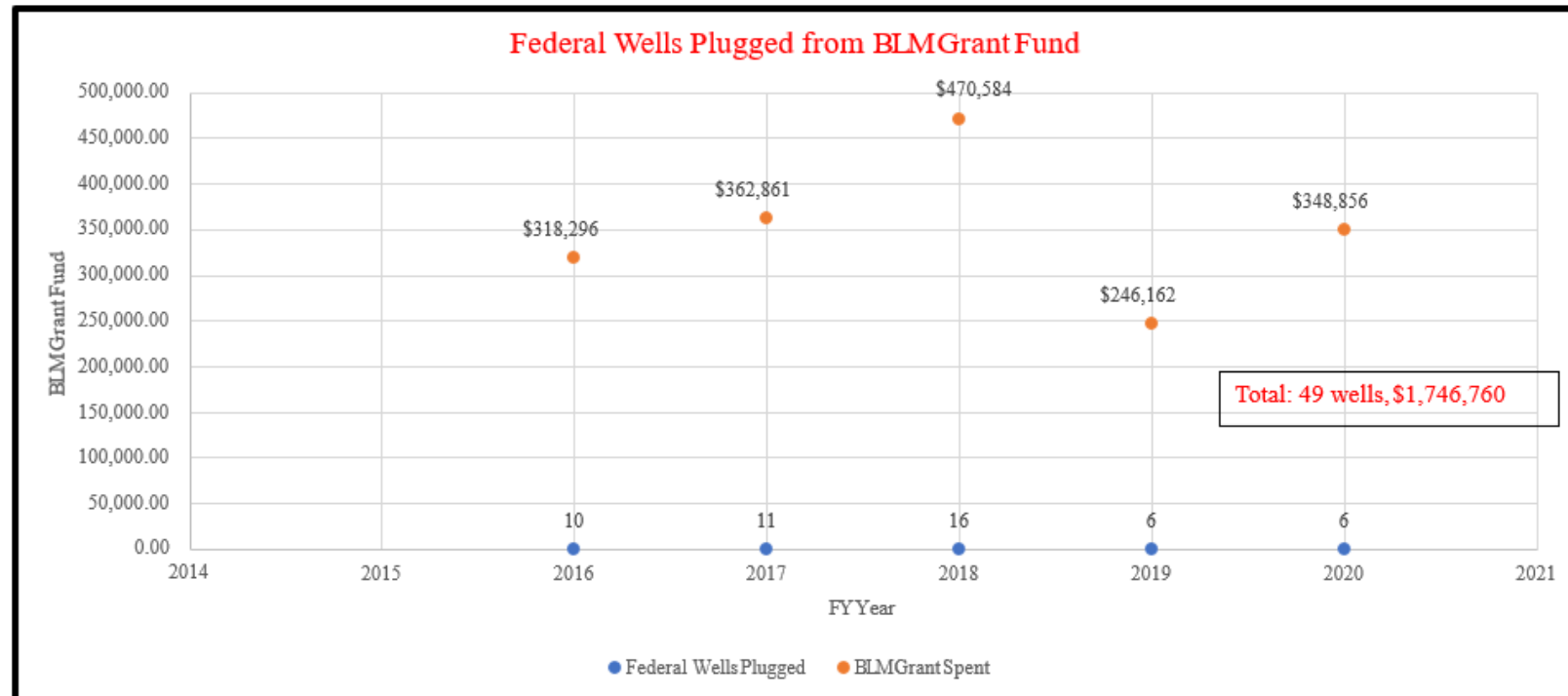
Plugging on State Land

- Since 2015, OCD has plugged 136 wells on state land
- Since 2015, OCD has spent approx. \$4.5 million of Rec. Fund to P/A wells on state land



Plugging on Federal Land

- OCD receives grant from BLM for P/A, restoration and reclamation on BLM lands
- A total of \$1,746,761 was spent from the BLM Grant from 2015-2020
- 49 wells plugged on BLM lands
- Extension to Grant for \$5,000,000 over the next five years is pending BLM approval



Questions?
